



GL BAJAJ

Institute of Management & Research
Approved by A.I.C.T.E., Ministry of HRD, Govt. of India

Roll No.....

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) – 201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2018-20) MID TERM EXAMINATIONS (TERM -II)

Subject Name: **Managerial Economics**

Time: **01.30 hrs**

Subject Code: **PG13**

Max Marks: **20**

Note:

1. **Writing anything except Roll Number on question paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.**
2. **All questions are compulsory in Section A, B & C. Section A carries 01 Case Study with 2 questions of 4 marks each. Section B carries 3 questions of 2 marks each and Section C carries 2 questions of 3 marks each.**

SECTION - A

04+04 = 08 Marks

Q. 1: Read the Case Study and answer the questions given below:

Eating out expenses of Mr. Maram, a Mumbai based Product Manager, have more than doubled in past years. Earlier he was spending about INR4000 a month on eating out with friends and colleagues, while now he is spending more than INR 10,000. Is it due to food inflation? Mr. Parikh and wife were firming out their vacation plan and found that their vacation expenses have seen a 26 percent annual rise in the last five years. Ms Ruchika is spending three times on her travel expenses as compared to the last two years. Is it due to high Consumer Price Index? Surprisingly in all the above cases, the answer is negative. It is not that Mr. Maram is compelled to pay more because food items have seen high inflation. Neither Mr. Parikh has to shell out more of his savings because train/air fare has seen upward trend. More interestingly, neither of the miscomplaining of inflation for this increase in expenses. It is because their lifestyle has changed. Mr. Maram has started to going more expensive eateries and oftener than two years ago. Mr. Parikh and family have started taking international vacations, whereas earlier they were only going to nearby places within the country. Ms. Ruchika goes on weekend getaways every month, while earlier she used to go only 3-4 times a year.

This trend is known as lifestyle inflation. It is prevalent in the age group of mid-twenties to early thirties; these consumers are young, earning well, have no responsibilities but have big aspirations. This is the time of age marked by rapid career advancements, bringing in fat pay packages. As income goes up, one tends to spend more on luxuries, fashionable goods, trendy brands and popular lifestyle. Also an increase in income brings attitudinal change, luxury becomes norm; after all one works hard to earn more only to live better. Therefore, it is normal to eat out at expensive places, change your mobile handset every six-eight months, alter wardrobe every season, visit attractive foreign tourist locations, stay in posh hotels, travel in taxi instead of public transport and the list is endless. The most intriguing part of this change is that increase in expenses is hardly noticed by these people and has a contagious effect on others. Rarely people are talking about savings and future financial plans while many people are talking about weekend plans. Financial experts call it silent inflation; they believe that no one can continue such lifestyle without a sound long term financial planning.

As per an estimate the lifestyle inflation typically works out to be 15-20 percent per year, while rise in income is much lower than this. This surge in expenses is so gradual that it does not pinch. Over a period of time you become used to such lifestyle and as your responsibilities increase it may become difficult to maintain it in the long run. Upgrading lifestyle is ecstatic while downgrading it is agonizing.

- i. Can lifestyle inflation be termed as an example of income elasticity of demand? Explain.
- ii. Is it true that when income elasticity is high price elasticity would be low?

SECTION - B

02×03 = 06 Marks

Q. 2: Which of the following commodities has most price elastic demand? Give reasons for your answer. (i) Milk (ii) Car (iii) Tooth paste.

Q. 3: Describe some of the opportunity costs when you decide to do the following;

- i. Go for higher studies after graduation
- ii. Watch a movie tonight

Q. 4: Why is managerial economics being considered a central part of each functional area of management?

SECTION - C

03×02 = 06 Marks

Q. 5. Segregation of ownership from management works against the objective of profit maximization” do you agree with this statement? Why? Or why not?

Q. 6. Explain in brief various factors contributing demand and supply gap in Indian Electricity market.